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In the Supreme Court of the United States

OCTOBER TERM, 1979

DAWSON CHEMICAL COMPANY, ET AL., PETITIONERS

v.

ROHM AND HAAS COMPANY

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

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INTEREST OF THE UNITED STATES

The United States administers and enforces the federal patent and antitrust laws. The public policy interests underlying these laws require that patents not be employed to suppress competition in unpatented materials. To protect these policy interests, this Court developed the patent misuse doctrine. The decision below would exempt from the misuse doctrine a patent licensing policy that attempts to monopolize the sale of an unpatented product used only in a patented process. The decision of this Court in this case will have an important effect on competition in a number of industries where unpatented materials are made for use in patented machines or processes.

QUESTION PRESENTED

Whether Congress in enacting 35 U.S.C. 271 intended to eliminate the doctrine of patent misuse in the situation where the holder of a process patent uses his patent to suppress competition in an unpatented product that has no substantial use except in the patented process.

STATEMENT

Respondent, Rohm and Haas (Rohm), holds a patent on a process for selectively controlling weeds in crops such as rice by applying the chemical compound "3, 4- dichloropropionanilide" (propanil) (Pet. App. A-51). The value of the process patent—the Wilson patent—is that the method it describes eliminates the need for hand weeding (Br. in Opp. 5). Propanil itself is unpatented,[1] and has no commercial

[1] Propanil was invented by a Monsanto Company chemist, Dr. Clarence Huffman, in 1954-1955. Its herbicidal qualities were recognized in a 1957 patent application assigned to Monsanto, but later abandoned. See *Monsanto Co.* v. *Rohm & Haas Co.*, 312 F. Supp. 778, 784, 795 (E.D. Pa. 1970). By 1961, propanil was in public use without patent protection (*id.* at 795). Between 1958 and 1963, Rohm attempted to patent propanil; its claim was rejected as unpatentable because it was described in the prior art (*id.* at 783). On May 7, 1968, however, the Patent and Trademark Office issued a patent, assigned to Monsanto, on a claim to propanil (*ibid.*). Prior to issuance of the Monsanto patent petitioners Dawson and Crystal, as well as Rohm, had sold propanil, and all continued to market propanil after Monsanto obtained its patent. See *Monsanto Co.* v. *Dawson Chemical Co.*, 312 F. Supp. 452, 454 (S.D. Tex. 1970); *Monsanto Co.* v. *Rohm & Haas Co.*, *supra*, 312 F. Supp. at 795. Monsanto thereupon sued for infringement. A judgment in the Eastern District of Pennsylvania in favor of Rohm was affirmed in *Monsanto Co.* v. *Rohm & Haas Co.*, 456 F.2d 592 (3d Cir. 1972), aff'ing 312 F. Supp. 778 (E.D. Pa. 1970), and a judgment against Dawson and Crystal in the Southern District of Texas was reversed in *Monsanto Co.* v. *Dawson Chemical Co.*, 443 F.2d 1035 (5th Cir. 1971), rev'ing 312 F. Supp. 452 (S.D. Tex. 1970), cert. denied, 405 U.S. 934 (1972). Both courts of appeals ruled that the patent was invalid, thereby leaving propanil in the public domain.

use other than in the Wilson patent process (Pet. App. A-5).[2]

Prior to issuance of the Wilson patent, petitioners sold propanil in competition with Rohm (Pet. App. A-52).[3] After issuance of the Wilson patent, each of these firms asked Rohm to issue it a license under the patent (*id.* at A-53). Rohm refused; it licenses its patented process only to those who purchase propanil from it (*id.* at A-53).[4] Petitioners were left with two choices: (1) discontinue sale of the unpatented propanil, or (2) continue to sell propanil and contribute to their customers' direct infringement of the Wilson patent. Petitioners chose the latter course (*ibid.*).

[2] The parties and the courts in this case refer to a product such as propanil, with no use except in a particular process patent, as a "nonstaple" (Pet. App. A-6 n.2).

[3] Helena Chemical Company, a defendant below, also produced propanil (Pet. App. A-52). Helena's participation in the petition in this Court was dismissed pursuant to Rule 60 on December 6, 1979.

[4] Respondent sells propanil in containers bearing labels that describe the method of use covered by the Wilson patent. Purchasers of Rohm's propanil are thus impliedly licensed by operation of law to use the method disclosed in the Wilson patent (Pet. App. A-53).

Rohm sued petitioners for contributory infringement, and petitioners defended, charging, *inter alia*, that Rohm had misused its patent (Pet. App. A-50).[5] The district court ruled that whether or not petitioners had contributorily infringed the Wilson patent, Rohm was not entitled to relief because its tying of unpatented propanil to the patented process was patent misuse as defined by decisions of this Court culminating in *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 (1944), and *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944) (Pet. App. A-49 to A-90). The district court held that 35 U.S.C. 271, which defines certain actions that do not constitute patent misuse, does not immunize a patentee who engages in licensing programs that foreclose competition in nonstaple articles (*id.* at A-79 to A-80).[6] The court reasoned that Section

[5] They also filed antitrust counterclaims alleging Rohm had violated Sections 1 and 2 of the Sherman Act, 15 U.S.C. 1 and 2 (Pet. App. A-6). Neither the district court nor the court of appeals ruled on these counterclaims, and they are not before this Court.

[6] Section 271 provides in relevant part:

* * * * *

(c) Whoever sells * * * a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal

271 was enacted to limit a "broad dictum" in the first *Mercoid* case that severely restricted any use of the doctrine of contributory infringement as a means of enforcing combination and process patents (*id.* at A-60 to A-61). Thus, while Section 271 "assures the viability of contributory infringement actions" it does not sanction Rohm's "efforts to corner the market on all sales of unpatented and unpatentable propanil" (*id.* at A-67 to A-71). The court concluded that to avoid the patent misuse defense and prevail in a suit for contributory infringement, a patent holder marketing nonstaple components of the patented combination or process must first offer licenses to others marketing those components (*id.* at A-79 to A-80, A-90 n. 20).[7]

The court of appeals reversed, holding that a process patent holder may condition the licensing of its process on the purchase from it of an unpatented nonstaple product used in practicing the process, and that such conduct does not prevent recovery from

extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement.

[7] The district court reserved for later proceedings the question of reasonable royalty rates and the number of license offers to other marketers of propanil necessary to dissipate the misuse (Pet. App. A-90 n.20).

competing producers of the nonstaple product for contributory infringement (Pet. App. A-42). It reached this conclusion because it read Section 271 (d)(1) and (3) as authorizing Rohm's conduct: Rohm had simply exercised its "right to sell the item as one competitor among many freely competing" while enforcing "its patent against those doing without permission * * * what the patentee itself is doing" (*ibid.*).

SUMMARY OF ARGUMENT

It is undisputed that respondent's refusal to license the use of its patent except to those who purchase propanil from it constitutes patent misuse under a long line of this Court's decisions, culminating in the *Mercoid* decisions in 1944. The only issue is thus whether that conduct is nevertheless protected by 35 U.S.C. 271(d), enacted in 1952. This Court has repeatedly stated that that section is to be strictly construed. Absent a "clear and certain signal from Congress," it is not to be read as overruling prior case law limiting a patentee's rights (*Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 531 (1972)).

There is no such signal here. The plain language of Section 271(d) allows respondent to sell propanil, to license the use of the Wilson patent, and to sue those who sell propanil without a license. It does not permit respondents to condition its licenses on the use of propanil purchased from itself. Imposition of that condition, which ties the license to use the patented process to the purchase of an unpatented

product, is the precise conduct that constitutes patent misuse here; it is not sanctioned by the language of Section 271(d). Nor does the legislative history justify reading Section 271(d) as approving this conduct. The Senate and House Reports agree that Section 271 was intended to codify and clarify the judicially-developed principles of contributory infringement, of which patent misuse is a part, and the congressional debates confirm this view. Although the hearings on the bill that became Section 271 are ambiguous, that ambiguity is insufficient to justify the broad reversal of controlling precedent announced by the court of appeals.

ARGUMENT

I. THE COURT OF APPEALS' BROAD READING OF THE STATUTE CONFLICTS WITH LONGSTANDING PRECEDENT AND THIS COURT'S STRICT CONSTRUCTION OF SECTION 271

The court of appeals' opinion effectively abrogates patent misuse principles carefully developed by this Court in a long line of cases decided over the last 62 years. In so acting, the court of appeals failed to follow tenets of statutory construction this Court has applied in recent cases interpreting Section 271.

If Supreme Court precedent had been followed here, Rohm's conduct would have been judged patent misuse. The court of appeals conceded as much (Pet. App. A-28, A-30). Beginning with *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, 243 U.S. 502, 510 (1917), this Court has uniformly

prohibited any attempt by a patentee to employ his patent, by conditional licensing or otherwise, to restrain competition in unpatented articles used in connection with the patented invention. *Carbice Corp.* v. *American Patents Development Corp.*, 283 U.S. 27 (1931); *Leitch Manufacturing Co.* v. *Barber Co.*, 302 U.S. 458 (1938); *Morton Salt Co.* v. *G.S. Suppiger Co.*, 314 U.S. 488, 490 (1942); *B.B. Chemical Co.* v. *Ellis*, 314 U.S. 495 (1942); *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 (1944) (*Mercoid I*); *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944) (*Mercoid II*). Under the Court-developed patent misuse doctrine, a patentee restraining competition in the sale of unpatented parts of his invention is denied judicial aid in enforcing his patent against direct and contributory infringers until his misuse is abandoned and its effects dissipated. *Morton Salt Co.* v. *G.S. Suppiger Co.*, *supra*, 314 U.S. at 493; *Leitch Manufacturing Co.* v. *Barber Co.*, *supra*, 302 U.S. at 463; *Carbice Corp.* v. *American Patents Development Corp.*, *supra*, 283 U.S. at 31. In sum, these precedents establish that "every use of a patent as a means of obtaining a limited monopoly of unpatented material is prohibited." *Leitch Manufacturing Co.* v. *Barber Co.*, *supra*, 302 U.S. at 463. This prohibition is "inherent in the patent grant, [and] is not dependent upon the peculiar function or character of the unpatented material or on the way in which it is used." *Carbice*

Corp. v. *American Patents Development Corp.*, *supra*, 283 U.S. at 33.[8]

The Court's patent misuse decisions, confining a patentee's right to exclude to a scope commensurate with his invention, reflect a national economic policy favoring free competition. Under these decisions, the express claims of the patent define the limits of a patentee's privilege, and he may not use his patent to secure exclusive rights that exceed those limits. See *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, *supra*; *Morton Salt Co.* v. *G.S. Suppiger Co.*, *supra*.[9] Indeed, this Court's decisions dating back to 1917 have held that "a combination patent protects only against the operable assmbly of the whole and not the manufacture of its parts." *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 528 (1972); accord: *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 344-345 (1961); *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, *supra*, 243 U.S. at 510-513. The patent misuse doctrine is thus consistent with the pro-competition policies of the antitrust laws. See *International Salt Co.* v. *United States*, 332 U.S. 392,

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[8] The same principle applies whether the unpatented product is necessary to the operation of a patented combination (*Carbice Corp.*, *supra*; *Mercoid I* and *Mercoid II*, *supra*), or a material used in practicing a patented process (*Leitch Manufacturing Co.*, *supra*; *B.B. Chemical Co.*, *supra*).

[9] See also *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436, 456 (1940); *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 339 (1961); *McClain* v. *Ortmayer*, 141 U.S. 419, 423-424 (1891).

395-396 (1947); *United States* v. *Loew's Inc.*, 371 U.S. 38, 46 (1962).

At the same time, the misuse doctrine furthers the pro-innovation policies that are at the heart of the patent system. In a tying case such as this, for example, innovation is rewarded and thereby encouraged by granting the patentee an exclusive right to practice the process he has invented. But extending that exclusive right to the marketing of a non-innovative chemical product to be consumed in that process would be a disincentive to the possible discovery of better ways to produce that product or of a more advantageous alternative product [10]—the very types of discoveries sought to be encouraged by the patent system.[11] It would also, of course, be a disincentive to the

[10] The latter consideration is probably not involved in the present case, however, because the patented process appears to be specific to propanil.

[11] There are, however, some countervailing considerations. There might be marginally more incentive to discover other uses for a chemical such as propanil (thus converting it into a staple) if the alternative for the potential discoverer were to be foreclosed from marketing it altogether, rather than merely to have to pay a reasonable royalty to do so. (On the other hand, those already producing and marketing it for a royalty might be more likely to attempt to discover other uses for it.) And, of course, the incentive to discover a new and useful process would be increased by the prospect of a more extensive monopoly reward, with concomitantly enhanced bargaining power with respect to the terms and conditions under which licenses may be granted to market a nonstaple product for use in the process. Such considerations conceivably could persuade Congress to change the legal principle governing this case, but, for the reasons stated in this brief, we submit that it has not done so in Section 271.

possible development by others of non-patentable efficiencies in the production or distribution of that product, which the policies of the antitrust laws seek to encourage. The misuse doctrine thus serves both patent and antitrust policies and is antagonistic to neither.

To validate Rohm's conduct the court of appeals read 35 U.S.C. 271 broadly, as substantially limiting the foregoing case law and the longstanding policies those cases reflect (Pet. App. A-30, A-47 to A-48). But this Court has stressed that Section 271 must be strictly construed "in light of this Nation's historical antipathy to monopoly." *Deepsouth Packing Co.* v. *Laitram Corp.*, *supra*, 406 U.S. at 530; see also *Graham* v. *John Deere Co.*, 383 U.S. 1, 7 (1966). Thus, in interpreting Section 271, patent rights should not be expanded by overruling or modifying prior cases "unless the argument for expansion of privilege is based on more than mere inference from ambiguous statutory language." *Deepsouth Packing Co.* v. *Laitram Corp.*, *supra*, 406 U.S. at 531. What is required is "a clear and certain signal from Congress" (*ibid.*). Absent such a signal, the limitations on the exercise of Rohm's patent must be strictly enforced. *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 230 (1964). See also *United States* v. *Masonite Corp.*, 316 U.S. 265, 280 (1942); *United States* v. *Univis Lens Co.*, 316 U.S. 241, 251 (1942).

The court of appeals was accordingly obligated to find in the language or legislative history of Section 271 a specific determination by the Congress sup-

porting the expansive reading of a patentee's rights and the significant narrowing of the patent misuse doctrine involved here. But no such congressional intent can be found. Congress has not clearly "indicated that it wanted the patent privilege to run farther than it was understood to run for * * * [62] years prior to the action of the Court of Appeals for the Fifth Circuit." *Deepsouth Packing Co.* v. *Laitram Corp.*, *supra*, 406 U.S. at 530. On the contrary, the interpretive evidence that is available weighs in favor of petitioners.

II. THE PLAIN LANGUAGE OF SECTION 271 DOES NOT SUPPORT THE COURT OF APPEALS' INTERPRETATION

The plain language of Section 271 does not immunize respondent's conduct from patent misuse. Subsections (a), (b), (c) and (d) of Section 271 each involve distinct subject matter. Subsection (a) defines patent infringement. Subsections (b) and (c) deal exclusively with the conduct of indirect infringers: subsection (b) creates potential liability for those who actively induce infringement while subsection (c) creates potential contributory infringement liability for those who sell products for infringing use, knowing those products to be nonstaple articles of commerce.

Section 271(d) relates to conduct by the patentee; it specifies three acts that the patentee may do without being deemed to have misused his patent. Subsection (d)(1) permits the patentee to "deriv[e]

revenue from acts which if performed by another without his consent would constitute contributory infringement," thus permitting Rohm to sell unpatented propanil for use in its patented process. Subsection (d)(2) permits the patentee to "licens[e] or authoriz[e] another to perform acts which if performed without his consent would constitute contributory infringement of the patent," thus permitting Rohm to license others to sell propanil for use in its patented process and collect royalties from those sales. Subsection (d)(3) permits the patentee to bring suit to "enforce his patent rights against infringement or contributory infringement," thus permitting Rohm to sue unauthorized sellers.

Section 271(d) is silent, however, on the issue of whether Rohm may, without misusing its patent, license the use of its process on condition that the licensees buy unpatented propanil from Rohm. This issue is critical, for the essence of patent misuse is the exclusion of competition by licensing only those who agree to buy the unpatented article from the patentee. Section 271(d), which permits Rohm to sell propanil, to license others to sell propanil for use in the patented process, and to file contributory infringement actions against unlicensed sellers, simply does not address the precise conduct that constitutes the misuse.

Indeed, the court of appeals identified no language in the statute specifically authorizing Rohm's conduct. Rather, it was the court's "impression" that, when

subsections (d)(1)-(3) are read together, they permit a patentee to limit licensing to those purchasing an unpatented, nonstaple component from him (Pet. App. A-42). A primary basis for this impression was the court's conclusion that the only way to give meaning to the authorization to license in (d)(2) is to interpret (d)(1) as granting the patentee the exclusive right to sell the nonstaple.[12] The court explained (Pet. App. A-42):

> [T]he rights to license another to sell such unpatented items [under (d)(2)] would be rendered worthless if the only right conferred by (d)(1) were the right to sell the item as one

[12] The court evidently was also influenced by the belief that "[a] general licensing obligation is foreign to a statutory scheme in which patentees are free to suppress entirely or reserve for themselves their inventions" (Pet. App. A-44 n.27). But the statutory scheme does not permit a patentee who elects to license his patent the option of including any conditions he chooses in those licenses. See, *e.g.*, *Mercoid I*, *supra*, 320 U.S. at 666; *Ansul Co.* v. *Uniroyal, Inc.*, 306 F. Supp. 541 (S.D. N.Y. 1969), aff'd in relevant part, 448 F.2d 872 (2d Cir. 1971), cert. denied, 404 U.S. 1018 (1972); *National Foam System, Inc.* v. *Urquhart*, 202 F.2d 659 (3d Cir. 1953). Specifically, he may not condition the grant of a license to use the patent on the purchase from him of unpatented articles associated with the patented process. *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, *supra*, 243 U.S. at 515; *McCullough Tool Co.* v. *Well Surveys, Inc.*, 343 F.2d 381, 407 (10th Cir. 1965); *Preformed Line Products Co.* v. *Fanner Manufacturing Co.*, 328 F.2d 265, 276 (6th Cir. 1964). Having chosen to license the Wilson patent, Rohm was thus obligated to do so in a manner consistent with both the terms of his patent and the preservation of competition in the unpatented product, propanil.

> competitor among many freely competing. Who would take a license, and on what terms, if anyone were free to compete, and the patentee had no legitimate right to exclude others from the market?

The right to license other sellers of the unpatented nonstaple is not, however, rendered worthless by an interpretation of Section 271 favoring petitioners. Section 271(c) recognizes the sale of unpatented nonstaples as contributory infringement, and Section 271(d)(3) authorizes suits for contributory infringement. Thus, a firm that wishes to compete in the sale of an unpatented nonstaple without contributorily infringing the patent must obtain a license from the patentee. Such a license has market value, and the patentee can obtain a reasonable royalty for its use.[13] Moreover, in accordance with subsection (d)(1) the patentee is still free to obtain revenue from his sales of the unpatented component. He is limited only by the condition that he cannot arrogate to himself all these sales by tying his grant of a license to the purchase from him of the unpatented component.

[13] This analysis comports with what actually happens in the marketplace, where non-exclusive royalty-bearing licenses are a frequent occurrence. See, *e.g.*, *Mercoid II*, *supra*, 320 U.S. at 682; *National Foam System, Inc.* v. *Urquhart*, 202 F.2d 659, 662-663 (3d Cir. 1953); *Philad Co.* v. *Lechler Laboratories, Inc.*, 107 F.2d 747, 748 (2d Cir. 1939). Cf. *United States Gypsum Co.* v. *National Gypsum Co.*, 387 F.2d 799, 802 (7th Cir. 1967), cert. denied, 390 U.S. 988 (1968). Indeed, the petitioners sought licenses to sell propanil (Pet. App. A-53).

III. THE LEGISLATIVE HISTORY DOES NOT SUPPORT THE COURT OF APPEALS' EXPANSIVE INTERPRETATION OF SECTION 271

The court of appeals interprets Section 271 as a grant to the patent holder of exclusive rights in any unpatented nonstaple component of the patented invention. Had Congress intended so dramatic a departure from well-established precedent, it would presumably have acknowledged this change during its deliberations. No such acknowledgement appears in the legislative history.[14] Instead, the legislative history emphasizes the limited reach of Section 271.

There is strong evidence that Section 271 was enacted on the understanding that it did not substantively modify prior patent law, but merely codified it or at most clarified it. Both the Senate and the House reports on Section 271, after noting that there was "[c]onsiderable doubt and confusion as to the scope of contributory infringement," stated that the purpose of Section 271 was "to codify in statutory

[14] Hearings were held by successive Congresses to consider codifying the patent laws, with particular attention paid to contributory infringement law. *Patent Law Codification and Revision: Hearings on H.R. 3760 Before Subcomm. No. 3 of the House Comm. on the Judiciary*, 82d Cong., 1st Sess. (1951) [hereinafter *1951 Hearings*]; *Contributory Infringement: Hearings on H.R. 3866 Before Subcomm. No. 4 of the House Comm. on the Judiciary*, 81st Cong., 1st Sess. (1949) [hereinafter *1949 Hearings*]; *Contributory Infringement in Patents—Definition of Invention: Hearings on H.R. 5988, H.R. 4061 and H.R. 5248 Before Subcomm. on Patents, Trademarks, and Copyrights of the House Comm. on the Judiciary*, 80th Cong., 2d Sess. (1948) [hereinafter *1948 Hearings*].

form principles of contributory infringement and at the same time eliminate this doubt and confusion." H.R. Rep. No. 1923, 82d Cong., 2d Sess. 9 (1952); S. Rep. No. 1979, 82d Cong., 2d Sess. 8 (1952). The reports also explained that under Section 271(d) a "patentee is not deemed to have misused his patent *solely* by reason of doing anything authorized by the section" (emphasis added). H.R. Rep. No. 1923, *supra*, at 28; S. Rep. No. 1979, *supra*, at 28. The plain implication was that if a patentee went beyond what was expressly described in subsection (d), as Rohm has here, Section 271 gave him no protection against a misuse defense.

The same view of Section 271's scope was authoritatively expressed on the Senate floor and during the hearings in the House. Just prior to the Senate vote on the codification bill, Senator McCarran, chairman of the committee responsible for the bill in the Senate, explained the bill's purpose on the Senate floor. He was asked by Senator Saltonstall, "Does the bill change the law in any way or only codify the present patent laws?" Senator McCarran responded: "It codifies the present patent laws." 98 Cong. Rec. 9323 (1952).[15] Similarly, Representative Crumpacker, a member of the House subcommittee conducting hearings on the bill, responded to concerns that the bill

[15] This Court relied on this statement to support a narrow interpretation of Section 271 in *Deepsouth Packing Co.* v. *Laitram Corp.*, *supra*, 406 U.S. at 530. See also *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, *supra*, 365 U.S. at 347 (Black, J., concurring).

could be interpreted to authorize conduct previously deemed patent misuse by stating that he interpreted the statute as not authorizing conduct previously deemed by the courts to be misuse or "monopolistic practices." [16]

This Court's decisions interpreting Section 271 have repeatedly relied on these aspects of Section 271's legislative history. *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 347 (1961) (Black, J., concurring); *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 485 n.6 (1946); *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 530 (1972); cf. *Blonder-Tongue Laboratories, Inc.* v. *University of Illinois Foundation*, 402 U.S. 313, 343-344 (1971); *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 133-141 (1969).[17]

The court of appeals considered this legislative history less significant than the testimony of proponents and opponents of the bill during the committee hearings (Pet. App. A-33 to A-40). The court relied heavily on the testimony by one of the bill's authors, Giles Rich, then a member of the private bar (Pet. App. A-33).[18] It summarized Rich's testimony before the House subcommittee in 1951 as being to the effect that the section was "designed to avoid restricting competition in items that were staples, while at the same time allowing patentees to deal in certain materially important unpatented elements and to sue competitors therein without being thrown out of court on grounds of misuse" (Pet. App. A-34; see *1951 Hearings* 157-159). The court also noted that Rich had told the House subcommittee that the bill was a compromise, not representative of any stage in the development of the contributory infringement and misuse doctrines (Pet. App. A-34 to A-35; see *1951 Hearings* 159-162). Finally, the court cited the testimony of Justice Department opponents of the bill who, the court said, saw Section 271 as a major and controversial change in misuse principles (Pet. App. A-36).

This reliance on excerpts from committee testimony, rather than the contrary interpretation in the committee reports and congressional debates, contravenes accepted principles of statutory construction. See *McCaughn* v. *Hershey Chocolate Co.*, 283 U.S.

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[16] *1951 Hearings* 164-165, 167. The court of appeals cited Representative Crumpacker's statement and the exchange between Senators Saltonstall and McCarran as indicating that "the legislative history is not crystal clear" (Pet. App. A-39).

[17] The court of appeals recognized that these decisions suggest an interpretation of the legislative history that would require affirmance of the district court here, but then chose to read that history differently. Thus, after reviewing the two *Aro* decisions, the court acknowledged that these "extraordinarily complex opinions, on balance, probably cut against our view" (Pet. App. A-46) and "that perhaps the majority [in *Aro*] would have considered any conditioning or tying as misuse, still prohibited irrespective of section 271(d)" (*id.* at A-47 n.29). See also Pet. App. A-47 to A-48 n.30.

[18] He subsequently became a judge on the Court of Customs and Patent Appeals. In that capacity, he authored an opinion recognizing the narrow scope of Section 271(d) in another context—its inapplicability to product claims. *Application of Ruschig*, 343 F.2d 965, 979 (C.C.P.A. 1965).

488, 493-494 (1931). But even if the hearings are to be relied on, there is much in them that supports petitioners' interpretation of the statute.

The proposed Section 271 was presented by members of the private patent bar as a means for dealing with the uncertainty created by the Court's decisions in *Mercoid I*, *supra*, and *Mercoid II*, *supra*.[19] In *Mercoid I* the combination patent was for a home heating system that included an unpatented stoker switch useful only in that system (320 U.S. at 663-664). The patent holder, Mid-Continent, granted an exclusive license under its patent to Honeywell (*id.* at 663). Honeywell manufactured and sold only the unpatented stoker switch, giving the purchaser an implied license to incorporate it into the patented system, and paying royalties to Mid-Continent based upon the number of switches sold (*ibid.*). Mercoid also sold the stoker switch (*id.* at 664). It had been offered a license by Mid-Continent prior to the issu-

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[19] Giles Rich acknowledged this in his testimony (*1951 Hearings* 173):

> MR. ROGERS. * * * Now, due to what many members of the patent bar believe, that [Mercoid] did away with contributory infringement cases, you feel that we should now state as a positive law a cause of action against contributory infringement as set forth in section (c), and that if he has done one of the three things in section [(d)], that shall not be considered a misuse of his patent, and thereby reestablish what you thought you had before the Mercoid case. Isn't that about what the situation is?
>
> MR. RICH. That is what we are driving at.

ance of the Honeywell license, and after that also had been offered a sublicense by Honeywell. Mercoid refused these offers and was sued for contributory infringement. *Mid-Continent Inv. Co.* v. *Mercoid Corp.*, 43 F.Supp. 692, 695 (N.D. Ill.), aff'd in part and rev'd in part, 133 F.2d 803, 811 (7th Cir. 1942).

In *Mercoid II*, Honeywell held a combination patent on a hot air furnace control system that required three unpatented thermostat switches useful only in that system. 320 U.S. at 682. Honeywell manufactured and sold two of the switches as a single unit, giving a license to the purchaser to install the unit in the patented system. It also licensed five of its competitors to sell the two-switch unit. Mercoid manufactured and sold the same unit. Honeywell offered Mercoid a license similar to those held by its existing licensees, but Mercoid refused the offer. Honeywell then sued for contributory infringement. 320 U.S. at 683.

In both *Mercoid I* and *Mercoid II* the Court held that the patentee could not successfully sue for contributory infringement. In *Mercoid I*, the Court found that Mid-Continent was guilty of patent misuse. It acknowledged, however, that the "result of this decision, together with those which have preceded it, is to limit substantially the doctrine of contributory infringement" (320 U.S. at 669). And, in *Mercoid II* the Court concluded that Honeywell had violated the antitrust laws (320 U.S. at 684).

The proponents of Section 271 complained to Congress that after the *Mercoid* cases even a patentee's

offer to license a competitor producing an unpatented nonstaple component of his invention could be considered patent misuse. If the patentee made even such a limited offer, according to Giles Rich, the "courts would hold that the granting of the license and the collecting of royalties on something less than what was covered by the patent was misuse" (*1949 Hearings* 16; see also *1949 Hearings* 10). The proponents' emphasis was on protecting the *Mercoid*-type patentee who was willing to license competitive production of the unpatented component.[20] It was not

[20] This emphasis is also reflected in the testimony of Stephen Cerstvik on behalf of the Aircraft Industries Association (*1949 Hearings* 26):

> [Manufacturers of unpatented components] could avoid liability as contributory infringers, prior to the Mercoid cases, by obtaining a license from the patent owner and paying him royalties on the sale of the unpatented components for use in the patented combination. At present, and as a result of the decisions of the Mercoid cases, this cannot be done without the danger of the patent owner subjecting himself to the possible charge that he is misusing his patent to control the sale of unpatented products by the collection of royalties on the sale of such unpatented products.

And see the testimony of Giles Rich during the same hearings (*id.* at 16):

> The courts would say * * * if they logically follow the Mercoid case, that the granting of this license [to a competing producer of nonstaple components] is a misuse because you are attempting to collect royalties from somebody under your patent for doing something which, per se, is not an infringement of your patent. It is not covered by your claims * * *.

Similarly, a Justice Department spokesman, Wilbur Fugate of the Antitrust Division, in expressing his opposition to Section 271(d), noted that subsection (d)(2), permitting a patentee to license others, "was designed to overrule the Mer-

suggested that Section 271 was designed to insulate from a misuse defense the entirely different case of the patentee who refuses to give a license to competing producers of nonstaple components, while offering a license to users of his patented process willing to purchase its unpatented components from him.[21] Thus a congressional desire in enacting Section 271 to modify or overrule the results of the *Mercoid* decisions is not sufficient to support the court of appeals' decision here. Rather, the court's reading of the statute imputes to Congress an intent to overrule not only the *Mercoid* decisions, but much earlier law as well.[22]

coid cases" (*1951 Hearings* 207). Although Mr. Fugate also objected that Section 271(d)'s effect "is to permit a patentee to sell unpatented parts for a patented device or combination and at the same time prohibit his competitors, by suit for contributory infringement, from selling such unpatented materials in competition with him," it is unlikely in light of the reference to the Mercoid cases, that Fugate intended to suggest that Section 271(d) would permit suit by a patentee who had *refused to license* his competitors.

[21] The comments of Justice Department spokesmen are not inconsistent with this analysis. Department representatives were primarily concerned that the statutory language might be given an overly broad judicial interpretation. Mr. Fugate summarized the Department's views (*1951 Hearings* 207):

> [T]he Department of Justice objects to section [271] since its *effect might be* to carve out an area in which the antitrust laws would not operate. Acts which are a misuse of patents, particularly the expansion of the patent to cover unpatented articles *might* no longer be a misuse. [Emphasis added.]

See also the remarks of Representative Crumpacker, *supra*, pages 17-18.

[22] The effect of the court of appeals' decision is to reinstate, at least for nonstaple articles, this Court's decision in *Henry* v. *A. B. Dick Co.*, 224 U.S. 1 (1912), a decision that was

And there is no evidence of such a congressional intent.

CONCLUSION

For the foregoing reasons, the judgment of the court of appeals should be reversed.

Respectfully submitted.

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expressly overruled in *Motion Pictures Patents Co.* v. *Universal Film Manufacturing Co.*, 243 U.S. 502, 518 (1917).

The prohibition against using the patent grant to dominate commerce in nonstaples arises out of pre-*Mercoid* decisions, law that Section 271's draftsmen desired to retain (see note 19, *supra*). In *B. B. Chemical Co.* v. *Ellis*, 314 U.S. 495 (1942), this Court affirmed a decision finding misuse where nonstaple components were involved. Although the distinction between staples and nonstaples was expressly considered by the court of appeals (117 F.2d 829, 834-835 (1st Cir. 1941)), it was not addressed specifically by this Court, which simply held that the patentee's "use of the patent as the means of establishing a limited monopoly in its unpatented materials * * * is contrary to public policy * * *." 314 U.S. at 497-498. Prior to *B. B. Chemical*, another court of appeals had also refused to distinguish between staple and nonstaple articles in applying the misuse doctrine. *Philad Co.* v. *Lechler Laboratories, Inc.*, 107 F.2d 747 (2d Cir. 1939).

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